

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**AGENDA ID#14852
RESOLUTION E-4787
May 26, 2016**

R E S O L U T I O N

Resolution E-4787. Adoption of electricity prices consistent with Decision 15-07-001.

PROPOSED OUTCOME:

- San Diego Gas & Electric Company's (SDG&E's) Advice Letter 2861-E, Implementation of SDG&E's 2016 Residential Rate Design Reform Pursuant to Decision 15-07-001 is approved.

SAFETY CONSIDERATIONS:

- There is no impact on safety.

ESTIMATED COST:

- There is no incremental cost associated with this Resolution.

By SDG&E Advice Letter (AL) 2861-E, filed February 29, 2016.

SUMMARY

On February 29, 2016, San Diego Gas & Electric Company (SDG&E) filed Advice Letter 2861-E (advice letter) seeking changes to its pricing for residential sales of electricity and consolidation of pricing tiers for residential customers in accordance with Decision (D.) 15-07-001 (the Decision). The advice letter proposed the following changes to residential electric rates, to be effective April 1, 2016:

- Existing tiers 1 and 2 and tiers 3 and 4 would be respectively collapsed into a new tier 1 for all residential electricity sales between 0% and 130% of baseline quantities and a new tier 2 for all residential electricity sales above 130% of baseline quantities.

- The price for new summer tier 1 electricity (up to 130% of baseline) would increase 23.1% relative to former tier 1 electricity (up to 100% of baseline) prices as of April 1, 2015.
- As a result of the collapse of tiers 3 and 4 into a single tier 2, the price for new summer tier 2 electricity (\geq 130% baseline) would decrease 11.7% relative to former tier 3 (between 130% and 200% of baseline) prices as of April 1, 2015 and would decrease 15.9% relative to former tier 4 (above 200% baseline) prices as of April 1, 2015.

As discussed in detail below, SDG&E's advice letter fulfills the requirements of the Decision as modified by this resolution and is approved subject to this resolution's findings and ordering paragraphs. Due to factors that were not anticipated at the time of the Decision's adoption last year, it is impossible for SDG&E to simultaneously adhere to the Decision's requirements to 1) cap 2016 tier 1 rate increases to a given percentage and 2) maintain a glidepath that moves towards reducing the ratio between the tiers.

BACKGROUND

Assembly Bill (AB) 327 (Perea, 2013) set in motion a series of reforms to residential electricity rates in California. Among these was the authorization for the CPUC to consider collapsing the number of tiers used to price residential electricity.

The CPUC issued Decision (D.) 15-07-001 (the Decision) last year implementing reforms to the default tiered price structure for residential electricity. The Decision began a process under which a time-of-use (TOU) system may become the default residential electricity price structure in 2019. Prior to this time, the various tiers for residential pricing were to be restructured and their differentials reduced through a glidepath established for each IOU. The approved glidepath for SDG&E appears below.¹

¹ D. 15-07-001 at 293. The acronym "BQ" stands for "baseline quantity" of electricity available to each PG&E customer in a month. The size of the BQ depends on which climate zone a customer lives in. Hotter climate zones tend to have larger BQs. The term "SUE Surcharge" means Super User Electric Surcharge and will cover monthly usage in excess of 400% of baseline starting in 2017.

Approved Glidepath for Tier Consolidation (SDG&E)

| | Current | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------------------------|--|--|--|--|--|--|
| Number of Tiers | 4 tiers | 3 tiers | 2 tiers | 2 tiers | 2 tiers | 2 tiers |
| Usage covered | Tier 1: 0-100% of BQ Tier 2: 101-130% of BQ Tier 3: 131-200% of BQ Tier 4: 200% + of BQ | Tier 1: up to 100% of BQ Tier 2: 101-130% of BQ Tier 3: above 130% of BQ | Tier 1: up to 130% of BQ Tier 2: above 130% of BQ | Tier 1: up to 130% of BQ Tier 2: above 130% of BQ | Tier 1: up to 130% of BQ Tier 2: above 130% of BQ | Tier 1: up to 130% of BQ Tier 2: above 130% of BQ |
| Tier Differential | | 1:1.13:2.18 | 1:1.66 | 1:1.405 | 1:1.351 | 1: 1.25 |
| SUE Surcharge⁵⁹⁶ | N/A | N/A | N/A | 1:1.637 | 1:1.9 | 1:2.19 |

In D. 15-07-001, special attention was paid to SDG&E's glidepath as it differs significantly from those proposed for the other two utilities. Under SDG&E's previous tiered rate structure, the differences between tier 1 and 2 rates and tier 3 and 4 rates were very small. For this reason, SDG&E proposed to collapse Tiers 1 and 2 to form a new tier 1 and tiers 3 and 4 into a new tier 2. The Commission generally agreed with this reasoning, accepting that "because the tiers that are being combined are already close together, the bill impacts for lower tier customers will be slightly less than the increase seen in the SCE and PG&E tier consolidation proposals."²

Another important feature of the Decision's mandated glidepath was the imposition of a cap on the annual increase in tier 1 prices. This meant that tier 1 increases resulting from the tier consolidation were to be capped at the change in the residential average rate (RAR) plus 5% relative to rates for the prior 12 months.³

² D.15-07-001 at 293.

³ D.15-07-001 at 277.

The Decision also directed SDG&E to file a Tier 2 advice letter (AL) in the fall of 2015 setting out future predicted rates according to the glidepath SDG&E filed AL 2784-E on September 1, 2015. SDG&E's estimated rates from AL 2784-E appear below:

| | Pre-9/1/2015 Implementation | 9/1/2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------|--------------------------------|----------|------|------|------|------|------|
| Summer (Cents/kWh) | | | | | | | |
| Baseline | 17.4 | 18.1 | 22.1 | 23.7 | 23.7 | 24.1 | 24.0 |
| 101% to 130% | 20.5 | 20.5 | 22.1 | 23.7 | 23.7 | 24.1 | 24.0 |
| 131% to 200% | 40.4 | 39.6 | 36.9 | 33.4 | 32.2 | 30.2 | 30.1 |
| 201% to 400% | 42.4 | 39.6 | 36.9 | 33.4 | 32.2 | 30.2 | 30.1 |
| Above 400% | N/A | N/A | N/A | 38.9 | 45.2 | 52.9 | 52.7 |
| Winter (Cents/kWh) | | | | | | | |
| Baseline | 17.4 | 16.5 | 20.0 | 21.2 | 21.1 | 21.3 | 21.2 |
| 101% to 130% | 20.5 | 18.7 | 20.0 | 21.2 | 21.1 | 21.3 | 21.2 |
| 131% to 200% | 36.8 | 36.1 | 33.3 | 29.9 | 28.6 | 26.7 | 26.6 |
| 201% to 400% | 38.8 | 36.1 | 33.3 | 29.9 | 28.6 | 26.7 | 26.6 |
| Above 400% | N/A | N/A | N/A | 34.8 | 40.3 | 46.7 | 46.5 |
| Minimum Bill (\$/day) | .170 | .329 | .329 | .329 | .336 | .343 | .350 |

*Note: D.15-07-001 provides a glidepath for Tier Consolidation through 2019. 2020 rates reflect the 2019 tier differentials and include adjustments reflecting baseline, CARE discount, as well as CPI adjustment to minimum bill.

Adhering to SDG&E's glidepath results in several increases to the tier 1 rate that are higher than 5% (22.1% from 9/1/2015 to 2016, and 7.2% from 2016 to 2017). AL 2784-E was suspended for further analysis stemming from the protests detailed below.

On February 29th, 2016, SDG&E filed AL 2861-E to implement the 2016 step of the glidepath. This next phase collapses tiers 1 and 2 into a single tier covering all usage up to 130% of baseline.

| <i>Schedule DR</i> | | | |
|--------------------------|-------------|-----------------|---------|
| Summer | | Current* | |
| Tier 1 (\$/kWh) | 0.18626 | Tier 1 (\$/kWh) | 0.21199 |
| Tier 2 (\$/kWh) | 0.21198 | | |
| Tier 3 (\$/kWh) | 0.40896 | Tier 2 (\$/kWh) | 0.35424 |
| Summer Tier Differential | 1:1.13:2.18 | | 1:1.66 |
| Winter | | | |
| Tier 1 (\$/kWh) | 0.17138 | Tier 1 (\$/kWh) | 0.19242 |
| Tier 2 (\$/kWh) | 0.19504 | | |
| Tier 3 (\$/kWh) | 0.37627 | Tier 2 (\$/kWh) | 0.32155 |
| Winter Tier Differential | 1:1.13:2.18 | | 1:1.66 |
| Annual Tier Differential | 1:1.13:2.18 | | 1:1.66 |

*Based on rates effective January 1, 2016 per AL 2840-E.

The issue is how to balance the competing goals of the Decision's approved glidepath (i.e., collapsing tiers while allowing only moderate price increases for lower-tier customers) when those goals cannot be simultaneously fulfilled. This resolution addresses this central question.

NOTICE

Notice of the SDG&E AL 2861-E was made by publication in the CPUC's Daily Calendar. SDG&E states that their advice letter was distributed in accordance with General Order (GO) 96-B, and was also served on the R.12-06-013 service list.

PROTESTS

On September 21, 2015, ORA filed a protest to AL 2784-E, stating that SDG&E's rates ignored the rules specified in the Decision and "simply followed the tier ratios suggested in D.15-07-001."⁴ ORA also pointed out that the tier 1 rate exceeded the cap of RAR plus 5 % relative to the previous 12 months and recommended that SDG&E refile with a more moderate glidepath.

⁴ Protest of the Office of Ratepayer Advocates to SDG&E Advice Letter No.2784-E, September 21, 2015 at 2.

SDG&E countered that the rates are consistent with the glidepath and that the RAR plus 5% cap should only apply in the case of revenue requirement increases as ordered in D.15-07-001. Since the rates filed resulted in revenue neutrality in comparison to May 1, 2015 rates, they asserted that the rules under that heading did not apply.⁵

ORA reiterated these criticisms in its March 21, 2016 protest to AL-2861, and went further in recommending that the Commission not bring tier 1 rates up to the tier 2 price when compressing the tiers.⁶

DISCUSSION

SDG&E proposes the following rates for non-CARE and CARE residential customers in its advice letter. For simplicity, only summer rates are shown.

| | SDG&E Summer Residential Rates | Price per kWh | Change from April 2015 | Summer Tier Differential |
|-----------------|--------------------------------|---------------|------------------------|--------------------------|
| Non-CARE | tier 1 (0-130% BQ) | \$0.212 | 23.1% | 1:1.66 |
| | tier 2 (above 130% BQ) | \$0.354 | -11.7% | |
| CARE | tier 1 (0-130% BQ) | \$0.128 | 14.3% | 1:1.73 |
| | tier 2 (above 130% BQ) | \$0.221 | 10.8% | |

In order to satisfy the Decision's requirement that the tier 2 to tier 1 ratio in 2019 is at most 1:1.25, SDG&E has opted to collapse tier 1 and tier 2 rates in 2016 as shown in the approved tier consolidation glidepath in the Decision.⁷ The result is that tier 1 rates are projected to increase by 23.1% compared to April 2015.

However, the Decision mandates that tier 1 increases resulting from the tier consolidation were to be capped at the change in the residential average rate (RAR) plus 5% relative to rates for the prior 12 months.⁸

⁵ SDG&E's Reply to Protest of SDG&E Advice Letter 2784-E, September 28, 2015 at 3.

⁶ Protest of the Office of Ratepayer Advocates to SDG&E Advice Letter No.2861-E, March 21, 2016 at 1.

⁷ D.15-07-001 at 293.

⁸ D.15-07-001 at 277.

Applying an RAR plus 5% increase to tier 1 rates effective April 1, 2015, as ORA proposes in their protest, results in tier 1 rate of \$0.180, which is lower than the current effective tier 1 rate of \$0.186. This contravenes the intent and spirit of the Decision to decrease the differential between upper and lower tiers each year. Thus, we must consider an alternate solution.

On September 1, 2015, SDG&E implemented the first step in its glidepath and increased tier 1 rates by 4.0%, resulting in a tier 1 rate of \$0.181. The Decision intended for SDG&E to bring the tiers closer together with each step of the glidepath. Thus, it is reasonable to use the rates from the last step in the glidepath as the basis for the next step of the glidepath.

A 5% increase on the September 1, 2015 tier 1 rate, per AL 2783-E, would yield a tier 1 rate equaling \$0.190 versus \$0.212 as proposed by SDG&E in AL 2861-E. The resulting tier 1 rate is only 10.4% higher relative to the April 1, 2015 rate, rather than 23.1% higher, as would be the case under SDG&E's proposal. These rates result in a tier differential of 1:2.07. Achieving the same differential for CARE rates results in a CARE tier 1 rate equaling \$0.116 versus \$0.128. The resulting CARE tier 1 rate is only 3.8% higher relative to the April 1, 2015 CARE tier 1 rate, rather than 14.3% higher.

This scenario attempts to minimize the bill impacts imposed on SDG&E residential customers while still making meaningful forward progress towards tier consolidation.

| | April 15 | 9/1/2015 per AL- 2783-E | 1/1/2016 per consolidated filing | SDG&E per AL 2861-E | ORA proposal | Energy Division Proposal |
|--------------------------------------|----------|-------------------------------|---|---------------------------|-----------------|--------------------------------|
| Non-CARE Energy Charges | | | | | | |
| 0 to 100% BQ | \$0.172 | \$0.181 | \$0.186 | \$0.212 | \$0.180 | \$0.190 |
| 100% to 130% BQ | \$0.202 | \$0.205 | \$0.212 | \$0.212 | \$0.180 | \$0.190 |
| 130% to 200% BQ | \$0.401 | \$0.396 | \$0.409 | \$0.354 | \$0.408 | \$0.394 |
| Over 200% BQ | \$0.421 | \$0.396 | \$0.409 | \$0.354 | \$0.408 | \$0.394 |
| Tier 1 % Change from April 15 | | 5.233% | 8.140% | 23.075% | 4.884% | 10.371% |
| Tier 1 % change from Sep-15 | | | 2.762% | 17.122% | -0.331% | 5.000% |
| Tier 1 % change from Jan-16 | | | | 13.973% | -3.011% | 1.919% |
| Tier Differential | 1:2.45 | 1:2.19 | 1:2.19 | 1:1.66 | 1:2.27 | 1:2.07 |
| CARE Energy Charges | | | | | | |
| 0 to 100% BQ | \$0.112 | \$0.107 | \$0.110 | \$0.128 | \$0.108 | \$0.116 |
| 100% to 130% BQ | \$0.131 | \$0.123 | \$0.126 | \$0.128 | \$0.108 | \$0.116 |
| 130% to 200% BQ | \$0.199 | \$0.245 | \$0.253 | \$0.221 | \$0.256 | \$0.241 |
| Over 200% BQ | \$0.199 | \$0.245 | \$0.253 | \$0.221 | \$0.256 | \$0.241 |
| Tier 1 % Change from April 15 | | -4.464% | -1.786% | 14.286% | -3.571% | 3.794% |
| Tier 1 % change from Sep-15 | | | 2.803% | 19.626% | 0.935% | 8.594% |
| Tier 1 % change from Jan-16 | | | | 16.364% | -1.818% | 5.711% |
| Tier Differential | 1:1.78 | 1:2.29 | 1:2.30 | 1:1.73 | 1:2.37 | 1:2.07 |

Based upon the need to adhere to D.15-07-001 guidelines, SDG&E's proposal for changes to the non-CARE and CARE tier compression glidepath is approved as outlined in Energy Division's proposal in the above table. Our decision in this resolution applies only to SDG&E's 2016 rate reform changes and does not necessarily apply to any other investor-owned utility.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the CPUC. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. Our analysis in this resolution applies only to SDG&E's 2016 rate reform changes and does not necessarily apply to any other investor-owned utility.

THEREFORE IT IS ORDERED THAT:

1. San Diego Gas & Electric Company's (SDG&E's) proposal for changes to the non-CARE tier compression glidepath is approved as outlined in this resolution.
2. SDG&E's CARE rate proposal is approved as outlined in this resolution.
3. SDG&E must file a supplement to AL 2861-E with revised tariff sheets reflecting the rates as outlined in this resolution.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on May 26, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director